

**LINCOLN COUNTY SCHOOL DISTRICT
AUDIT REPORT
YEAR ENDED JUNE 30, 2014**

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December 12, 2014

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Education
Lincoln County School District
305 Danville Avenue, P.O. Box 265
Stanford, KY 40484

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lincoln County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note A to the financial statements, in 2014, the Lincoln County School District adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on Pages 4 through 10 and 38 and 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lincoln County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2014, on our consideration of Lincoln County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln County School District's internal control over financial reporting and compliance.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

**LINCOLN COUNTY PUBLIC SCHOOL DISTRICT – STANFORD, KY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2014**

As management of the Lincoln County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

FINANCIAL HIGHLIGHTS

- The June 30, 2014 cash balance for the District was \$8,521,795 million, as compared with the beginning cash balance of \$7,698,915 million. The ending cash balance consists of General Fund of \$6,269,661, Special Revenue of (\$303,208), Capital Outlay of \$824,587, Building (FSPK) Fund of \$288,340, Construction Fund of \$689,596, Food Service of \$752,800 and Community Education of \$19.
- District-wide net assets increased \$209,102 during the 2014 fiscal year. Total long-term obligations decreased \$1,021,120.
- The General Fund had \$29.2 million in revenue, which primarily consisted of the state program (SEEK), property, utilities, and motor vehicle taxes. There were \$28.9 million in General Fund expenditures.
- General Fund revenue decreased \$667,000 from last fiscal year and General Fund expenses decreased \$635,000.
- The financial statements reflect revenues of \$6,407,152 from the state on-behalf of District employees for retirement contributions, health insurance, administration fees, debt service and technology with a like amount of expenses recorded.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

District-wide financial statements

The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our community education and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13-20 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements.

The notes to the financial statements can be found on pages 21-37 of this report.

DISTRICT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$18.4 million as of June 30, 2014.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2014 and June 30, 2013

A comparison of June 30, 2014 and June 30, 2013 government wide net assets is as follows:

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and Other Assets	\$ 8,902,159	\$ 8,912,256	\$ 842,768	\$ 431,258	\$ 9,744,927	\$ 9,343,514
Capital Assets	40,808,267	42,060,578	200,402	252,997	41,008,669	42,313,575
Total Assets	49,710,426	50,972,834	1,043,170	684,255	50,753,596	51,657,089
Deferred Outflows	642,487	-	-	-	642,487	-
TOTAL ASSETS AND DEFERRED OUTFLOWS	50,352,913	50,972,834	1,043,170	684,255	51,396,083	51,657,089
Current Liabilities	2,855,824	2,648,468	6,723	2,696	2,862,547	2,651,164
Non-Current Liabilities	30,084,281	31,105,401	-	-	30,084,281	31,105,401
Total Liabilities	32,940,105	33,753,869	6,723	2,696	62,946,828	33,756,565
Net Assets						
Investment in capital assets						
(net of related debt)	10,695,410	10,948,628	200,402	252,997	10,895,812	11,201,625
Restricted	1,802,523	2,023,072	836,045	428,562	2,638,568	2,451,634
Unrestricted	4,914,875	4,247,265	-	-	4,914,875	4,247,265
Total Net Assets	<u>\$ 17,412,808</u>	<u>\$ 17,218,965</u>	<u>\$1,036,447</u>	<u>\$ 681,559</u>	<u>\$ 18,449,255</u>	<u>\$ 17,900,524</u>

The following table presents changes in net assets for the fiscal years ended June 30, 2014 and June 30, 2013.

	Governmental		Business - Type		Total	
	Activities		Activities		Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
REVENUES						
Program revenues						
Charges for services	\$ -	\$ -	\$ 230,779	\$ 327,435	\$ 230,779	\$ 327,435
Operating grants and contributions	6,138,651	6,250,290	2,536,105	2,166,828	8,674,756	8,417,118
Capital grants	717,400	1,134,057			717,400	1,134,057
General revenues						
Property taxes	4,053,588	4,069,955			4,053,588	4,069,955
Motor vehicle taxes	732,646	709,021			732,646	709,021
Utility Taxes	1,182,256	1,165,702			1,182,256	1,165,702
Other taxes	32,755	40,785			32,755	40,785
Investment earnings	52,424	52,394	2,875	1,131	55,299	53,525
State and formula grants	24,555,403	24,906,328			24,555,403	24,906,328
Miscellaneous	422,975	467,182			422,975	467,182
Total revenues	<u>37,888,098</u>	<u>38,795,714</u>	<u>2,769,759</u>	<u>2,495,394</u>	<u>40,657,857</u>	<u>41,291,108</u>
EXPENSES						
Program Activities						
Instructional	23,584,896	24,558,586			23,584,896	24,558,586
Student support	1,620,774	1,654,574			1,620,774	1,654,574
Instructional staff Support	1,540,055	1,662,970			1,540,055	1,662,970
District administrative support	511,971	510,712			511,971	510,712
School administrative support	2,175,906	2,058,861			2,175,906	2,058,861
Business support	739,325	1,204,668			739,325	1,204,668
Plant operations and maintenance	3,821,666	3,405,417			3,821,666	3,405,417
Student transportation	2,492,580	2,256,554			2,492,580	2,256,554
Community service activities	422,308	441,711			422,308	441,711
Facilities Acquisition & Construction	16,525	5,396			16,525	5,396
Interest costs	1,107,878	1,856,531			1,107,878	1,856,531
Business-type Activities						
Food service			2,414,871	2,320,359	2,414,871	2,320,359
Community education			-	20	-	20
Total expenses	<u>38,033,884</u>	<u>39,615,980</u>	<u>2,414,871</u>	<u>2,320,379</u>	<u>40,448,755</u>	<u>41,936,359</u>
Increase (decrease) in net assets	<u>\$ (145,786)</u>	<u>\$ (820,266)</u>	<u>\$ 354,888</u>	<u>\$ 175,015</u>	<u>\$ 209,102</u>	<u>\$ (645,251)</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2014 and 2013 were \$6,407,152 and \$6,654,756 respectively.

Total revenue decreased \$633,251 and expenses decreased \$1,487,604.

Governmental Activities

For the governmental program expenses instructional expenses comprise 62% of total expenses, support services equate to 34%, and interest and other expenses make up the remaining 4% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Instructional	\$ 23,584,896	\$ 24,558,469	\$ 18,716,241	\$ 19,639,906
Support Services	12,918,802	12,759,269	11,665,603	10,710,223
Other	422,308	441,711	16,647	24,973
Interest Costs	<u>1,107,878</u>	<u>1,856,531</u>	<u>779,342</u>	<u>1,856,531</u>
Total Expenses	<u>\$ 38,033,884</u>	<u>\$ 39,615,980</u>	<u>\$ 31,177,833</u>	<u>\$ 32,231,633</u>

Business-Type Activities

The business type activities at the District are Food Service and Community Education. These programs had total revenues of \$2,769,759 and expenses of \$2,414,871 for fiscal year 2014. These revenues were made up of \$230,779 charges for services, \$2,536,105 federal and state operating grants and \$2,875 earnings on investments. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2014 was \$37,899,279 and expenditures were \$3,238,445. The most significance net change in fund balance was the decrease in Operating expenses with a decrease of \$3,904,684.

General Fund Budgetary Highlights

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The General Fund had budgeted revenues of \$28,032,850 with actual results being \$29,653,008. Budgeted expenditures were \$33,691,156 compared to actual expenditures of \$29,140,179.

Future Budgetary Implications

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for fiscal year 2013-2014 with an approximate 3.7% contingency.

Significant Board action that impacts the finances includes the Board's salary schedules which were provided a 1% raise for all employees for the 2014-2015 school year. The State mandated this raise for certified and classified employees for the FY 2015. The State increased the SEEK base from \$3,827 to \$3,911 to help fund this increase. The increase in SEEK base and a decrease in pupil count results in a \$82,494 increase in SEEK funding for FY 2015.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the 2014 fiscal year, the District had invested \$41,008,669 in a broad range of capital assets, including equipment, buses, buildings, and land. This amount represents a net decrease of \$1,304,907. Depreciation expense for the year was \$1,955,599 and capital additions were \$661,874.

	Governmental Activities (Net of Depreciation)		Business - Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 409,580	\$ 409,580	\$ -	\$ -	\$ 409,580	\$ 409,580
Construction in Progress	46,355	7,428,185			46,355	7,428,185
Buildings and Improvements	38,144,758	32,008,584	-	-	38,144,758	32,008,584
Technology	500,655	650,238	-	4,167	500,655	654,405
Vehicles	1,120,195	928,574	-	-	1,120,195	928,574
General Equipment	586,724	635,417	200,402	248,831	787,126	884,248
Total	<u>\$40,808,267</u>	<u>\$42,060,578</u>	<u>\$ 200,402</u>	<u>\$ 252,998</u>	<u>\$ 41,008,669</u>	<u>\$ 42,313,576</u>

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Beginning Balance	\$ 42,060,578	\$ 41,518,318	\$ 252,997	\$ 304,419	\$ 42,313,575	\$ 41,822,737
Additions	661,874	2,293,433	-	2,385	661,874	2,295,818
Retirements	(11,181)	(1,066)			(11,181)	(1,066)
Depreciation	<u>(1,903,004)</u>	<u>(1,750,107)</u>	<u>(52,595)</u>	<u>(53,806)</u>	<u>(1,955,599)</u>	<u>(1,803,913)</u>
Ending Balance	<u>\$ 40,808,267</u>	<u>\$ 42,060,578</u>	<u>\$ 200,402</u>	<u>\$ 252,998</u>	<u>\$ 41,008,669</u>	<u>\$ 42,313,576</u>

Long-Term Debt

The District Refunded the Series 2010 Energy Conservation Bonds at an interest rate that will save the District \$335,000 over the life of the Bond. In addition the District made scheduled bond principal payments in the amount of \$1,460,000. The District financed four additional buses through KISTA which added \$412,980 to capital lease payments. The District made scheduled capital lease payments of \$87,073 changing the District's capital lease obligations from \$666,950 to \$992,857.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director at (606) 365-2124.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS:			
Cash & Cash Equivalents - Note C	7,768,976	752,819	8,521,795
Accounts Receivable:			
Taxes - Current	312,820		312,820
Taxes - Delinquent	13,130		13,130
Accounts	41,667	67,099	108,766
Intergovernmental - State	17,270		17,270
Intergovernmental - Federal	748,296		748,296
Inventories for Consumption		22,850	22,850
Total Current Assets	8,902,159	842,768	9,744,927
Noncurrent Assets - Note G			
Land	409,580		409,580
Construction In Progress	46,355		46,355
Buildings & Improvements	57,381,804		57,381,804
Furniture & Equipment	10,535,003	1,111,188	11,646,191
Less: Accumulated Depreciation	(27,564,475)	(910,786)	(28,475,261)
Total Noncurrent Assets	40,808,267	200,402	41,008,669
TOTAL ASSETS	49,710,426	1,043,170	50,753,596
Deferred Outflows from Advanced Bond Refundings	642,487		642,487
TOTAL ASSETS AND DEFERRED OUTFLOWS	50,352,913	1,043,170	51,396,083
LIABILITIES:			
Current Liabilities:			
Accounts Payable	199,260	6,723	205,983
Accrued Salaries & Sick Leave - Note A	316,662		316,662
Advances from Grantors	412,578		412,578
KSBIT Assessment - Note T	91,508		91,508
Bond Obligations - Note E	1,475,000		1,475,000
Capital Lease Obligation - Note F	133,933		133,933
Accrued Interest Payable	226,883		226,883
Total Current Liabilities	2,855,824	6,723	2,862,547
Noncurrent Liabilities:			
Bond Obligations - Note E	27,645,000		27,645,000
Capital Lease Obligation - Note F	858,924		858,924
KSBIT Assessment - Note T	263,995		263,995
Accrued Sick Leave - Note A	1,316,362		1,316,362
Total Noncurrent Liabilities	30,084,281	0	30,084,281
TOTAL LIABILITIES	32,940,105	6,723	32,946,828
NET POSITION:			
Net Investment in Capital Assets	10,695,410	200,402	10,895,812
Restricted for:			
Capital Projects	689,596		689,596
SFCC Escrow	1,112,927		1,112,927
Other Purposes		836,045	836,045
Unrestricted	4,914,875		4,914,875
TOTAL NET POSITION	17,412,808	1,036,447	18,449,255
TOTAL LIABILITIES AND NET POSITION	50,352,913	1,043,170	51,396,083

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	23,584,896		4,868,655		(18,716,241)		(18,716,241)
Support Services:							
Student Support Services	1,620,774		284,400		(1,336,374)		(1,336,374)
Staff Support Services	1,540,055		529,105		(1,010,950)		(1,010,950)
District Administration	511,971				(511,971)		(511,971)
School Administration	2,175,906				(2,175,906)		(2,175,906)
Business Support Services	739,325				(739,325)		(739,325)
Plant Operation & Maintenance	3,821,666		22,754		(3,798,912)		(3,798,912)
Student Transportation	2,492,580		28,076		(2,464,504)		(2,464,504)
Community Service Operations	422,308		405,661		(16,647)		(16,647)
Facilities Acquisition & Construction	16,525			388,864	372,339		372,339
Interest on Long-Term Debt	1,107,878			328,536	(779,342)		(779,342)
TOTAL GOVERNMENTAL ACTIVITIES	38,033,884	0	6,138,651	717,400	(31,177,833)		(31,177,833)
BUSINESS-TYPE ACTIVITIES:							
Community Education Fund						0	0
Food Service	2,414,871	230,779	2,536,105			352,013	352,013
TOTAL BUSINESS-TYPE ACTIVITIES	2,414,871	230,779	2,536,105	0	0	352,013	352,013
TOTAL SCHOOL DISTRICT	40,448,755	230,779	8,674,756	717,400	(31,177,833)	352,013	(30,825,820)
GENERAL REVENUES:							
Taxes:							
Property					4,086,342		4,086,342
Motor Vehicle					732,646		732,646
Utility					1,182,256		1,182,256
State Aid - Formula Grants					24,555,404		24,555,404
Investment Earnings					52,424	2,875	55,299
Miscellaneous					434,156		434,156
SPECIAL ITEMS:							
Gain(Loss) Sale of Assets					(11,181)		(11,181)
TOTAL GENERAL & SPECIAL					31,032,047	2,875	31,034,922
CHANGE IN NET POSITION					(145,786)	354,888	209,102
NET POSITION - BEGINNING OF YEAR, AS RESTATED - NOTE U					17,558,594	681,559	18,240,153
NET POSITION - ENDING					17,412,808	1,036,447	18,449,255

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	6,269,661	(303,208)		1,802,523	7,768,976
Accounts Receivable:					
Taxes - Current	312,820				312,820
Taxes - Delinquent	13,130				13,130
Accounts	41,667				41,667
Intergovernmental - State		17,270			17,270
Intergovernmental - Federal		748,296			748,296
TOTAL ASSETS	<u>6,637,278</u>	<u>462,358</u>	<u>0</u>	<u>1,802,523</u>	<u>8,902,159</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	149,480	49,780			199,260
Accrued Salaries & Sick Leave	316,662				316,662
Advances from Grantors		412,578			412,578
Total Liabilities	<u>466,142</u>	<u>462,358</u>	<u>0</u>	<u>0</u>	<u>928,500</u>
Fund Balance:					
Restricted for:					
Capital Projects				689,596	689,596
SFCC Escrow				1,112,927	1,112,927
Committed for:					
Accrued Sick Leave	1,316,362				1,316,362
Assigned for:					
Purchase Obligations	281,315				281,315
Unassigned Fund Balance	4,573,459				4,573,459
Total Fund Balance	<u>6,171,136</u>	<u>0</u>	<u>0</u>	<u>1,802,523</u>	<u>7,973,659</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>6,637,278</u>	<u>462,358</u>	<u>0</u>	<u>1,802,523</u>	<u>8,902,159</u>

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL GOVERNMENTAL FUND BALANCE		7,973,659
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	68,372,742	
Accumulated Depreciation	<u>(27,564,475)</u>	40,808,267
Deferred Outflows on Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		642,487
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(29,120,000)	
Capital Lease Obligation	(992,857)	
Accrued Interest on Bonds	(226,883)	
KSBIT Assessment	(355,503)	
Accrued Sick Leave	<u>(1,316,362)</u>	<u>(32,011,605)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>17,412,808</u></u>

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes:					
Property	3,582,210			504,132	4,086,342
Motor Vehicle	732,646				732,646
Utility	1,182,256				1,182,256
Earnings on Investments	46,773	1,218		4,433	52,424
Intergovernmental - State	23,437,702	872,622	544,925	1,117,702	25,972,951
Intergovernmental - Federal	77,017	5,189,012	172,475		5,438,504
Other Sources	139,163	292,267	2,726		434,156
TOTAL REVENUES	29,197,767	6,355,119	720,126	1,626,267	37,899,279
EXPENDITURES:					
Instructional	17,228,411	5,060,637			22,289,048
Support Services:					
Student Support Services	1,323,204	295,615			1,618,819
Staff Support Services	972,373	549,969			1,522,342
District Administration	510,761				510,761
School Administration	2,173,212				2,173,212
Business Support Services	690,956		48,152		739,108
Plant Operation & Maintenance	3,348,907	23,651			3,372,558
Student Transportation	2,645,044	29,183			2,674,227
Community Service Operations		421,657			421,657
Facilities Acquisition & Construction				58,448	58,448
Debt Service:					
Principal			6,797,073		6,797,073
Interest			1,061,192		1,061,192
TOTAL EXPENDITURES	28,892,868	6,380,712	7,906,417	58,448	43,238,445
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	304,899	(25,593)	(7,186,291)	1,567,819	(5,339,166)
OTHER FINANCING SOURCES(USES):					
Proceeds from Sale of Bonds			5,385,000		5,385,000
Capital Lease Financing	412,980				412,980
Operating Transfers In - Note O	42,261	67,854	1,801,291		1,911,406
Operating Transfers Out - Note O	(247,311)	(42,261)		(1,621,834)	(1,911,406)
TOTAL OTHER FINANCING SOURCES	207,930	25,593	7,186,291	(1,621,834)	5,797,980
NET CHANGE IN FUND BALANCES	512,829	0	0	(54,015)	458,814
FUND BALANCES - BEGINNING	5,658,307	0	0	1,856,538	7,514,845
FUND BALANCES - ENDING	6,171,136	0	0	1,802,523	7,973,659

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Amounts reported for governmental activities in the statement of net position are different because:

NET CHANGES - GOVERNMENTAL FUNDS		458,814
Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.		
Depreciation Expense	(1,903,004)	
Capital Outlays	<u>661,874</u>	
		(1,241,130)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Principal Paid	6,797,073	
Capital Lease Financing	(412,980)	
Bond Proceeds	<u>(5,385,000)</u>	
		999,093
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Amortization-Deferred Outflows on Advanced Bond Refundings	(59,368)	
Accrued Interest Payable	12,682	
Accrued Sick Leave	<u>(304,696)</u>	
		(351,382)
In the statement of activities the net gain on the sale/disposal of assets is reported in whereas in the governmental funds the proceeds from the sale increases financial resources. Thus the change in net position differs from change in fund balances by the cost of the asset sold.		
Gain (Loss)- Sale of Assets		<u>(11,181)</u>
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>(145,786)</u></u>

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	ENTERPRISE FUNDS		
	FOOD SERVICE	COMMUNITY EDUCATION FUND	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	752,800	19	752,819
Accounts Receivable	67,099		67,099
Inventories for Consumption	22,850		22,850
Total Current Assets	842,749	19	842,768
Noncurrent Assets:			
Furniture & Equipment	1,111,188		1,111,188
Less: Accumulated Depreciation	(910,786)		(910,786)
Total Noncurrent Assets	200,402	0	200,402
TOTAL ASSETS	1,043,151	19	1,043,170
LIABILITIES:			
Current Liabilities:			
Account Payable	6,723		6,723
Total Current Liabilities	6,723	0	6,723
Net Position:			
Net Investment in Capital Assets	200,402		200,402
Restricted	836,026	19	836,045
Total Net Position	1,036,428	19	1,036,447
TOTAL LIABILITIES AND NET POSITION	1,043,151	19	1,043,170

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	ENTERPRISE FUNDS		
	FOOD SERVICE	COMMUNITY EDUCATION FUND	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	221,628		221,628
Other Operating Revenues	9,151		9,151
TOTAL OPERATING REVENUES	230,779	0	230,779
OPERATING EXPENSES:			
Salaries & Benefits	1,010,711		1,010,711
Contract Services	13,727		13,727
Materials & Supplies	1,328,020		1,328,020
Depreciation - Note F	52,595		52,595
Other Operating Expenses	9,818		9,818
TOTAL OPERATING EXPENSES	2,414,871	0	2,414,871
OPERATING INCOME(LOSS)	(2,184,092)	0	(2,184,092)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	2,248,867		2,248,867
State Grants	149,535		149,535
Donated Commodities	137,703		137,703
Interest Income	2,875		2,875
TOTAL NONOPERATING REVENUE	2,538,980	0	2,538,980
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	354,888	0	354,888
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET POSITION	354,888	0	354,888
TOTAL NET POSITION - BEGINNING	681,540	19	681,559
TOTAL NET POSITION - ENDING	1,036,428	19	1,036,447

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	FOOD SERVICE FUND	COMMUNITY EDUCATION FUND
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received from:		
Lunchroom Sales	221,628	
Other Activities	9,151	
Cash Paid to/for:		
Employees	(861,176)	
Supplies	(1,182,820)	
Other Activities	(23,545)	
Net Cash Provided (Used) by Operating Activities	(1,836,762)	0
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:		
Federal Grants	2,381,115	
Net Cash Provided by Non-Capital and Related Financing Activities	2,381,115	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	0	0
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of Interest Income	2,875	
Net Increase in Cash and Cash Equivalents	547,228	0
Balances, Beginning of Year	205,572	19
Balances, End of Year	752,800	19
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating Loss	(2,184,092)	0
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities		
Depreciation	52,595	
State On-Behalf Payments	149,535	
Donated Commodities	137,703	
Change in Assets and Liabilities:		
Inventory	3,470	
Accounts Payable	4,027	
Net Cash Provided (Used) by Operating Activities	(1,836,762)	0
Schedule of Non-Cash Transactions:		
Donated Commodities	137,703	0
State On-Behalf Payments	149,535	0

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	<u>358,068</u>
TOTAL ASSETS	<u>358,068</u>
LIABILITIES:	
Due to Student Groups	<u>358,068</u>
TOTAL LIABILITIES	<u>358,068</u>
NET POSITION IN TRUST	<u><u>0</u></u>

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lincoln County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Lincoln County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Lincoln County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Lincoln County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Lincoln County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified on Pages 43 and 44 in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.

D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2014, to finance the General Fund operations were \$0.458 per \$100 valuation for real property, \$0.458 per \$100 valuation for business personal property, and \$0.542 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Governmental Activities Estimated Lives
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will received from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

Budgetary Process

Budgetary Basis of Accounting: The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority, which is the School Board, and this does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	\$1,316,362	Long-Term Sick Leave Commitment

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

Net Position

Net Position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Change in Accounting Principle

Effective for the fiscal year ending June 30, 2014, the Board adopted GASB Statement 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989, FASB and AICPA Pronouncements*, which codifies all applicable GASB, Financial Accounting Standards Board ("FASB"), and Accounting Principles Board opinions dated according to the title of the statement. Additionally, for fiscal year ending June 30, 2014, the Board has implemented GASB Statement 65 *Items Previously Reported as Assets and Liabilities* which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note U for the impact of the adoption of this standard on beginning net position.

NOTE B – ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – CASH AND CASH EQUIVALENTS

Custodial Credit Risk - Deposits. Custodial Credit is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$8,879,863. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance and \$8,629,863 was covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cash and cash equivalents at June 30, 2014, consisted of the following:

	Bank Balance	Book Balance
Farmers National Bank	10,192,157	8,879,863

Breakdown per financial statements:

Governmental Funds	7,768,976
Proprietary Funds	<u>752,819</u>
Subtotal	8,521,795
Agency Funds	<u>358,068</u>
Total Cash & Cash Equivalents – All Funds	<u>8,879,863</u>

NOTE D – INVESTMENTS

The District held no investments on June 30, 2014.

NOTE E – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as lease obligations represents the District's future obligations to make lease payments relating to the bonds issued by the Lincoln County School District Finance Corporation aggregating \$29,120,000.

The original amount of each issue and interest rates are summarized below:

2004	3,650,000	3.635% - 4.80%
2005 Unrefunded	470,000	3.70% - 4.00%
2009	3,130,000	2.00% - 3.00%
2009 ECB	725,000	1.25% - 2.75%
2010	7,415,000	0.70% - 4.90%
2010 Refunding	4,215,000	2.00% - 3.30%
2012	2,145,000	1.15% - 3.20%
2012 Refunding	6,820,000	1.00% - 2.375%
2014 Refunding	5,385,000	2.75% - 3.625%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make payments in amounts sufficient to satisfy debt service requirements on bonds issued by the Lincoln County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

The District has "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local schools districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2014, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2014-15	1,475,000	901,459	544,925	1,831,534
2015-16	1,555,000	860,161	538,834	1,876,327
2016-17	1,590,000	817,111	519,770	1,887,341
2017-18	1,580,000	775,332	519,771	1,835,561
2018-19	1,615,000	732,935	519,771	1,828,164
2019-20	1,605,000	688,832	463,460	1,830,372
2020-21	1,505,000	645,093	310,772	1,839,321
2021-22	1,560,000	600,682	310,772	1,849,910
2022-23	1,615,000	557,889	310,772	1,862,117
2023-24	1,650,000	517,139	310,773	1,856,366
2024-25	1,700,000	475,476	310,773	1,864,703
2025-26	1,730,000	431,220	285,139	1,876,081
2026-27	1,655,000	385,215	193,873	1,846,342
2027-28	1,720,000	320,335	193,873	1,846,462
2028-29	1,790,000	250,445	193,874	1,846,571
2029-30	1,855,000	175,035	193,874	1,836,161
2030-31	1,600,000	82,800	151,385	1,531,415
2031-32	1,320,000	42,900	0	1,362,900
	<u>29,120,000</u>	<u>9,260,059</u>	<u>5,872,411</u>	<u>32,507,648</u>

Long-term liability activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Revenue Bond Payable	30,445,000	5,385,000	6,710,000	29,120,000	1,475,000
Capital Lease Obligations	666,950	412,980	87,073	992,857	133,933
KSBIT Assessment	478,858	-0-	123,355	355,503	91,508
Accrued Sick Leave	<u>1,348,861</u>	<u>325,093</u>	<u>45,607</u>	<u>1,628,347</u>	<u>311,984</u>
Governmental Activities					
Long-Term Liabilities	<u>32,939,669</u>	<u>6,123,073</u>	<u>6,966,035</u>	<u>32,096,707</u>	<u>2,012,425</u>

NOTE F – CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2024. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2014.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2014</u>
Buses	1,236,694
Accumulated Amortization	<u>(391,930)</u>
	<u>844,764</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2014:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2015	157,817
2016	150,295
2017	142,811
2018	134,388
2019	134,519
Thereafter	<u>384,785</u>
Net minimum lease payments	1,104,615
Amount representing interest	<u>(111,758)</u>
Present value of net minimum lease payments	<u>992,857</u>

Interest rates on capitalized leases vary from 2.00% to 3.90%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
GOVERNMENTAL ACTIVITIES:				
Non-Depreciable Assets:				
Land	409,580			409,580
Construction in Progress	7,428,185	(7,381,830)		46,355
Depreciable Assets:				
Buildings & Building Improvements	49,966,851	7,423,753	8,800	57,381,804
Technology Equipment	3,483,108	163,365	131,109	3,515,364
Vehicles	5,326,199	395,519		5,721,718
General Equipment	1,241,391	61,067	4,537	1,297,921
TOTAL AT HISTORICAL COST	67,855,314	661,874	144,446	68,372,742
LESS ACCUMULATED DEPRECIATION FOR:				
Buildings & Building Improvements	17,958,267	1,282,036	3,256	19,237,046
Technology Equipment	2,832,870	311,319	129,480	3,014,709
Vehicles	4,397,625	203,897		4,601,523
General Equipment	605,974	105,752	529	711,197
TOTAL ACCUMULATED DEPRECIATION	25,794,736	1,903,004	133,265	27,564,475
GOVERNMENTAL ACTIVITIES CAPITAL NET	42,060,578	(1,241,130)	(11,181)	40,808,267
PROPRIETARY ACTIVITIES:				
Depreciable Assets:				
Technology Equipment	66,571			66,571
General Equipment	1,044,617			1,044,617
TOTALS AT HISTORICAL COST	1,111,188	-0-	-0-	1,111,188
LESS ACCUMULATED DEPRECIATION FOR:				
Technology Equipment	62,404	4,167		66,571
General Equipment	795,787	48,428		844,215
TOTAL ACCUMULATED DEPRECIATION	858,191	52,595	-0-	910,786
PROPRIETARY ACTIVITIES CAPITAL NET	252,997	(52,595)	-0-	200,402
DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:				
Instructional				1,154,517
Student Support Services				1,955
Staff Support Services				17,713
District Administration				1,210
School Administration				2,694
Business Support Services				217
Plant Operation & Maintenance				510,175
Student Transportation				213,872
Community Service Operations				651
TOTAL				1,903,004

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H – COMMITMENTS UNDER NONCAPITALIZED LEASES

Commitments under operating lease agreements for office equipment provide the minimum future rental payments as of June 30, 2014, as follows:

<u>Year Ending June 30, 2015</u>	<u>\$ 524</u>
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NOTE I – RETIREMENT PLANS

Certified employees are covered under the Teachers' Retirement System of Kentucky ("KTRS"), a cost sharing, multiple employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and public educational agencies in Kentucky.

KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members are required to contribute 11.355% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 14.605% of salaries. The federal program for any salaries paid by that program pays the matching contributions. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE).

Substantially all other employees (classified personnel) are covered under the County Employee's Retirement System ("CERS"), a cost sharing, multiple-employer, public employers retirement system. Funding for the Plan is provided through payroll withholdings of 5% for employees hired before September 15, 2008, and 6% for employees hired after September 15, 2008, and a Board contribution of 18.89% of the employee's total compensation subject to contribution.

The Board's total payroll for the year was \$22,140,580. The payroll for employees covered under KTRS was \$16,905,170 and for CERS was \$5,235,410.

For the years ended June 30, 2014, 2013 and 2012, the Commonwealth contributed \$1,901,774, \$1,963,895 and \$1,939,093 respectively to KTRS for the benefit of our participating employees. The School District's contributions to KTRS for the year ending June 30, 2014, 2013 and 2012 were \$512,093, \$442,741 and \$362,437 respectively which represent those employees covered by federal programs.

The contribution requirements for CERS for the years ended June 30, 2014, 2013 and 2012, were \$1,258,953, \$1,380,225 and \$1,464,052 respectively, which consisted of \$988,969, \$1,093,735 and \$1,150,054 from the Board and \$269,984, \$286,490 and \$314,198 respectively from the employees.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Benefits under both plans will vary based on final compensation, years of service, and other factors as fully described in the Plan documents.

The “pension benefit obligation” is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increased and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions’ funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the plans and employers.

KTRS and CERS do not make separate measurements of assets and pension benefit obligation for individual employers. The following tables present certain information regarding the plans’ status as a whole, derived from actuarial valuations performed as of the dates indicated:

	KTRS June 30, 2013	CERS June 30, 2013
Assets available for benefits, at fair value	14,962,758,000	5,637,094,483
Pension benefit obligation	<u>(28,817,232,000)</u>	<u>(9,378,876,114)</u>
(Underfunded)/overfunded pension benefit obligation	<u>(13,854,474,000)</u>	<u>(3,741,781,631)</u>

Ten-year historical trend information showing KTRS’s and CERS’s progress in accumulating sufficient assets to pay benefits when due is presented in their June 30, 2013, comprehensive annual financial reports.

As the District is only one of several employers participating in the Plan, it is not practicable to determine the District’s portion of the unfunded past service cost or the vested benefits of the District’s portion of the Plan assets.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K), and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE J – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE K – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related which include Workers' Compensation insurance.

NOTE L – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers' compensation, errors and omissions, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance fund. The public entity risk pools operate as common risk management and insurance programs for all school district and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days' notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

During 2013, the Kentucky School Boards Insurance Trust ceased to operate. The District's insurance coverage continued through June 30, 2014. (See also Note T.) However, as of July 1, 2014, the District was required to obtain insurance coverage from a commercial insurance company. Coverage was obtained from WRM America Insurance Company.

NOTE M – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Construction Fund	54,015
Debt Service Fund	7,186,291
Special Revenue Fund	25,593

NOTE N – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE O – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	67,854
Operating	General	Debt Service	Debt Service	179,457
Operating	Building Fund	Debt Service	Debt Service	1,271,167
Operating	SEEK	Debt Service	Debt Service	350,667
Operating	Special Revenue	General	Indirect Cost	<u>42,261</u>
				<u>1,911,406</u>

NOTE P – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2014.

NOTE Q – SUBSEQUENT EVENTS

Management has reviewed subsequent events through December 12, 2014. On August 6, 2014 the district had a fire at the main office and head start facilities. The fire caused significant damage to the main office and completely destroyed the head start facilities. The district has commercial insurance coverage which will pay the entire cost of cleanup and reconstruction of the facilities with the exception of \$1,000 deductible which the district will be required to pay.

NOTE R – ON-BEHALF PAYMENT

For the year ended June 30, 2014, \$6,407,152 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, debt service and administrative fees were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

General Fund	\$ 5,712,692
Food Service Fund	149,535
Debt Service	<u>544,925</u>
Total	<u>\$ 6,407,152</u>

NOTE S – COMMITMENTS

At June 30, 2014 the District has an open project at Lincoln County High School for Title IX renovations. It is anticipated that the cost of completion of this projects is \$523,505.

NOTE T – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2014, Lincoln County School District's assessment is valued at \$355,503. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2015	91,508
2016	55,958
2017	55,957
2018	50,694
2019	50,693
2020	<u>50,693</u>
Total	<u>355,503</u>

NOTE U – NET POSITION, AS RESTATED

Governmental Accounting Standards Board Statement 65 required changes to the beginning balances of the Statement of Net Position. Beginning net position of the governmental activities was decreased \$485,581 to eliminate bond issuance costs, which had been capitalized and amortized on previous statements. Further, beginning net position of the governmental activities increased \$701,855 to capitalize the deferred costs from refunding bonds prior to the fiscal year beginning July 1, 2013.

In addition, beginning net position was restated to correct the Kentucky School Boards Insurance Trust (KSBIT) liability beginning balance. The previous year's balance was recorded based on the best estimate available per KSBIT. The liability decreased by \$123,355; thus, beginning net position increased by \$123,355.

Net Position as of June 30, 2013	\$ 17,218,965
Less: Elimination of bond issuance costs	(485,581)
Add: Deferred outflows from advanced bond refundings	701,855
Add: Decrease in KSBIT assessment	<u>123,355</u>
Beginning Net Position, As Restated	<u>\$ 17,558,594</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	4,838,000	4,838,000	5,497,112	659,112
Other Local Sources	31,323	31,323	185,936	154,613
State Sources	23,144,561	23,144,561	23,437,702	293,141
Federal Sources	15,966	15,966	77,017	61,051
Other Sources	3,000	3,000	455,241	452,241
TOTAL REVENUES	28,032,850	28,032,850	29,653,008	1,620,158
EXPENDITURES:				
Instructional	19,697,576	19,697,576	17,228,411	2,469,165
Student Support Services	1,383,738	1,383,738	1,323,204	60,534
Staff Support Services	1,015,284	1,015,284	972,373	42,911
District Administration	768,337	768,337	510,761	257,576
School Administration	2,058,329	2,058,329	2,173,212	(114,883)
Business Support Services	701,004	701,004	690,956	10,048
Plant Operation & Maintenance	3,804,951	3,804,951	3,348,907	456,044
Student Transportation	2,695,950	2,695,949	2,645,044	50,905
Community Service Operations	535	535		535
Other	1,565,454	1,565,454	247,311	1,318,143
TOTAL EXPENDITURES	33,691,158	33,691,157	29,140,179	4,550,978
NET CHANGE IN FUND BALANCE	(5,658,308)	(5,658,307)	512,829	6,171,136
FUND BALANCES - BEGINNING	5,658,308	5,658,307	5,658,307	0
FUND BALANCES - ENDING	0	0	6,171,136	6,171,136

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2014

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	868	868	1,218	350
State Sources	1,066,955	1,070,813	872,622	(198,191)
Federal Sources	5,152,605	5,156,573	5,189,012	32,439
Other Sources	492,850	371,747	360,121	(11,626)
TOTAL REVENUES	6,713,278	6,600,001	6,422,973	(177,028)
EXPENDITURES:				
Instructional	5,263,091	5,268,131	5,060,637	207,494
Student Support Services	310,393	310,393	295,615	14,778
Staff Support Services	628,176	510,915	549,969	(39,054)
District Administration				
School Administration				
Business Support Services				
Plant Operation & Maintenance	23,651	23,651	23,651	0
Student Transportation	23,775	23,775	29,183	(5,408)
Food Service				
Central Office				
Community Service Operations	421,931	420,875	421,657	(782)
Facility Acquisition & Construction				
Other	42,261	42,261	42,261	0
TOTAL EXPENDITURES	6,713,278	6,600,001	6,422,973	177,028
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

See accompanying auditor's report and accompanying notes to financial statements.

OTHER SUPPLEMENTARY INFORMATION

LINCOLN COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2014

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:				
Cash & Cash Equivalents	288,340	824,587	689,596	1,802,523
TOTAL ASSETS	<u>288,340</u>	<u>824,587</u>	<u>689,596</u>	<u>1,802,523</u>
LIABILITIES AND FUND BALANCES:				
Liabilities:				
Accounts Payable				
Accrued Sick Leave				
Deferred Revenues				
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:				
Restricted for:				
Capital Projects			689,596	689,596
SFCC Escrow	288,340	824,587		1,112,927
Total Fund Balances	<u>288,340</u>	<u>824,587</u>	<u>689,596</u>	<u>1,802,523</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>288,340</u>	<u>824,587</u>	<u>689,596</u>	<u>1,802,523</u>

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	BUILDING FUND	SEEK CAPITAL OUTLAY FUND	CONSTRUCTION FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:				
Taxes	504,132			504,132
Earnings from Investments			4,433	4,433
Intergovernmental - State	767,034	350,668		1,117,702
TOTAL REVENUES	1,271,166	350,668	4,433	1,626,267
EXPENDITURES:				
Facilities Acquisition & Construction			58,448	58,448
TOTAL EXPENDITURES	0	0	58,448	58,448
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	1,271,166	350,668	(54,015)	1,567,819
OTHER FINANCING SOURCES(USES):				
Operating Transfers Out	(1,271,167)	(350,667)		(1,621,834)
TOTAL OTHER FINANCING SOURCES(USES)	(1,271,167)	(350,667)	0	(1,621,834)
NET CHANGE IN FUND BALANCES	(1)	1	(54,015)	(54,015)
FUND BALANCES - BEGINNING	288,341	824,586	743,611	1,856,538
FUND BALANCES - ENDING	288,340	824,587	689,596	1,802,523

See independent auditor's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES
 AGENCY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2014

	FUND BALANCE JULY 1, 2013	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2014
Lincoln County High School	122,085	504,298	492,320	134,063
Fort Logan High School	4,353	2,512	4,135	2,730
Lincoln County Middle School	55,812	263,063	245,475	73,400
McGuffey 6th Grade Center	10,505	29,815	32,663	7,657
Crab Orchard Elementary	21,514	29,843	44,208	7,149
Highland Elementary	19,719	39,343	51,600	7,462
Hustonville Elementary	38,764	69,730	80,843	27,651
McKinney Elementary	32,745	24,052	28,379	28,418
Stanford Elementary	53,248	88,255	94,193	47,310
Waynesburg Elementary	<u>19,062</u>	<u>48,893</u>	<u>45,727</u>	<u>22,228</u>
Total Activity Funds (Due to Student Groups)	<u><u>377,807</u></u>	<u><u>1,099,804</u></u>	<u><u>1,119,543</u></u>	<u><u>358,068</u></u>

See independent accountant's report and accompanying notes to financial statements.

LINCOLN COUNTY SCHOOL DISTRICT
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE
HIGH SCHOOL ACTIVITY FUND
FOR THE YEAR ENDED JUNE 30, 2014

	CASH BALANCE JULY 1, 2013	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2014	ACCOUNTS RECEIVABLE JUNE 30, 2014	ACCOUNTS PAYABLE JUNE 30, 2014	FUND BALANCE JUNE 30, 2014
General Fund	4,989	1,071	1,686	4,374			4,374
Flower Fund	850	490	330	1,010			1,010
Financial Literacy	500	0	500	0			0
Perfect Attendance	1,584	1,500	1,485	1,599			1,599
LCHS Special	0	396	370	26			26
Locker Account	2,007	1,180	995	2,192			2,192
Student Parking	6,781	1,955	1,371	7,365			7,365
Social Committee	109	0	0	109			109
Book Scholarship Fund	1,432	3	1,421	14			14
Teacher's Pepsi Account	2,152	2,086	3,521	717			717
Project Graduation	853	10,149	9,785	1,217			1,217
Prom Account	2,813	7,755	5,170	5,398			5,398
Yearbook	13,071	9,510	13,120	9,461			9,461
Student Pepsi Account	1,860	3,552	4,534	878			878
Student Vending	176	185	131	230			230
Teacher Vending	178	114	49	243			243
Picture Account	1,897	3,326	3,021	2,202			2,202
Hats On	59	1,859	1,863	55			55
Art Department	719	809	1,518	10			10
Business Department	2,749	1,167	680	3,236			3,236
Computer Lab	411	0	0	411			411
Culinary	333	127	102	358			358
VO. AG. Special	1,198	780	676	1,302			1,302
Floral Design	306	0	0	306			306
Family & Cons. Science	1,710	0	0	1,710			1,710
Horticulture	6,262	9,479	5,136	10,605			10,605
Industrial Arts	104	1,410	280	1,234			1,234
Journalism	75	0	0	75			75
Language Arts Department	87	0	55	32			32
Math Department	30	0	0	30			30
Physical Education Department	459	191	191	459			459
Science Department	65	0	65	0			0
Science Fair	95	0	30	65			65
Marketing	483	1,380	1,462	401			401
Unite to Read	135	0	0	135			135
Athletics	175	83,853	84,028	0			0
A.D. Financial Aid	1,536	22,894	21,197	3,233			3,233
Baseball/F.A.	19	23,232	23,098	153			153
Boys Basketball/F.A.	429	18,452	18,677	204			204
Girls Basketball/F.A.	534	28,752	22,221	7,065			7,065
Football/F.A.	5,029	61,483	53,295	13,217			13,217
Boys Golf/F.A.	100	0	0	100			100
Girls Golf/F.A.	1,023	623	717	929			929
Boys Soccer/F.A.	593	21,317	21,069	841			841
Girls Soccer/F.A.	71	11,193	10,127	1,137			1,137
Softball/F.A.	5,405	9,582	14,911	76			76
Boys and Girls Tennis/F.A.	419	795	484	730			730
Boys Track & Field	323	724	867	180			180
Cross Country/F.A.	188	2,852	2,894	146			146
Girls Volleyball/F.A.	702	3,725	3,892	535			535

District Softball	963	0	963	0			0
Kerry Murphy Memorial	201	150	351	0			0
Baseball District	24	0	0	24			24
Volleyball Region	137	0	137	0			0
Cheerleaders	633	4,960	4,570	1,023			1,023
Girls Track & Field	331	724	867	188			188
Death Valley Bowl	1,000	31,355	27,782	4,573			4,573
Bass Fishing	140	2,675	1,084	1,731			1,731
District Basketball	373	0	373	0			0
Hospitality Room	176	0	114	62			62
Regional Basketball	491	20,318	20,742	67			67
Training/F.A.	2,467	580	1,165	1,882			1,882
Archery	828	2,944	3,257	515			515
Football Playoffs	203	1,347	0	1,550			1,550
BETA Club	549	857	526	880			880
Jr. Guard/JROTC	2,191	215	139	2,267			2,267
Spring Musical	1,897	6,950	7,253	1,594			1,594
F.B.L.A.	2,019	3,377	4,183	1,213			1,213
F.C.A.	338	1,614	1,000	952			952
F.F.A.	3,574	15,972	16,547	2,999			2,999
F.C.C.L.A.	815	1,056	975	896			896
Guidance Department	1,042	14,252	15,136	158			158
Teens For Change	161	0	0	161			161
Library	462	1,456	753	1,165			1,166
State Basketball	2,640	0	2,640	0			0
National Honor Society	1,044	2,021	2,742	323			323
Teenage Republicans	0	170	0	170			170
Pep Club	2,263	0	196	2,067			2,067
F.E.A.	708	0	0	708			708
Student Y/KYA	1,324	0	0	1,324			1,324
Youth Service Center	1,465	4,291	2,295	3,461			3,460
Drama Club	188	417	191	414			414
Art Honor Society	334	0	0	334			335
Band	3,119	7,801	10,113	807			807
Chorus	691	5,207	3,960	1,939			1,939
Senior Class	5,563	28,874	29,980	4,457			4,457
Junior Class	759	0	0	759			759
Sophomore Class	67	0	0	67			67
Freshman Class	260	0	0	260			260
Academic Team	93	263	272	84			84
Student Council	1,479	98	404	1,173			1,173
Foreign Language	313	0	0	312			312
Arts & Humanity	9	0	0	9			9
Relay For Life	64	0	0	64			64
Auditorium/Tickets	1,595	150	278	1,466			1,466
Auditorium/Rental	470	433	330	573			573
Textbooks	1,121	280	206	1,195			1,193
Kuna Club	473	2,366	2,748	91			91
Key Club	1,615	485	0	2,101			2,100
Class of 1990	335	0	335	0			0
Total All Funds	122,085	513,609	501,631	134,063	0	0	134,061
Interfund Transfers	0	(9,311)	(9,311)	0	0	0	0
Total	122,085	504,298	492,320	134,063	0	0	134,063

LINCOLN COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	CFDA NUMBER	MUNIS PROJECT NUMBER	EXPENDITURES
<u>U.S. Department of Education</u>			
Passed-Through Department of Education			
Title I - Grants to Local Educational Agencies	84.010	3103	423,790
Title I - Parent Involvement	84.010	3103M	2,212
Title I - Grants to Local Educational Agencies	84.010	3102	1,760
Title I - Grants to Local Educational Agencies	84.010	3104	902,432
Title I - Parent Involvement	84.010	3104M	14,070
Title I - Professional Development of District	84.010	3102D	34,335
Title I - School Improvement	84.010	3203	21,120
Title I - School Improvement	84.010	3203A	138
Title I - School Improvement	84.010	3204	36,520
Title I Cluster			1,436,377 *
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4013	787
Title II - Part A -Teacher Quality Enhancement Grants	84.367	4014	250,579
Total Title II - Part A			251,366
Perkins Voc.	84.048	3482A	160
Perkins Voc.	84.048	3483	7,091
Perkins Voc.	84.048	3483A	2,321
Perkins Voc.	84.048	3484	41,672
Total Perkins Voc.			51,244
IDEA - Special Education - Grants to State	84.027	3373	134,892
IDEA - Special Education - Grants to State	84.027	3374	791,250
IDEA - Special Education - Grants to State	84.027	3374P	18,570
IDEA - Special Education - Preschool Grants	84.173	3433	904
IDEA - Special Education - Preschool Grants	84.173	3433	47,388
IDEA - Special Education - Preschool Grants	84.173	3434	60,008
Special Education Cluster			1,053,012
21st Century Learning Center	84.287	5502	19,663
21st Century Learning Center	84.287	5502H	44,624
21st Century Learning Center	84.287	5503	67,655
21st Century Learning Center	84.287	5503H	106,309
21st Century Learning Center	84.287	5504	35,991
21st Century Learning Center Total			274,242
Head Start	93.600	655A	1,929
Head Start	93.600	6553	90,504
Head Start	93.600	6553H	34,801
Head Start - Early Head Start	93.600	655AH	2,416
Head Start - Early Head Start	93.600	6554	1,302,251
Head Start - Early Head Start	93.600	6554H	409,177
Head Start Total			1,841,078 *
Migrant Education - State Grant Program	84.011	3112S	7,924
Migrant Education - State Grant Program	84.011	3113	12,113
Migrant Education - State Grant Program	84.011	3113S	5,061
Migrant Education - State Grant Program	84.011	3114	54,038
Migrant Education Total			79,136
Race to the Top	84.413A	4521	30,010
Title IV - Rural and Low Income Schools	84.358	350A	27,240
Title IV - Rural and Low Income Schools	84.358	3504	14,468
Title IV - Rural and Low Income Schools	84.358	3505	66,526
Title IV - Rural and Low Income Schools Total			108,234
Total U.S. Department of Education			5,124,699
<u>U.S. Department of Labor</u>			
Passed-Through Department of Education			
Workforce Investment Act	17.259	5883	8,348
Workforce Investment Act	17.259	5884	35,558
Workforce Investment Act	17.259	5884A	18,227
Total Workforce Employment Act			62,133
Total U.S. Department of Labor			62,133
<u>U.S. Department of Agriculture</u>			
Passed-Through State Department of Education			
National School Lunchroom	10.555	7750002-13	294,118
National School Lunchroom	10.555	7750002-14	1,138,424
School Breakfast Program	10.553	7760005-13	133,849
School Breakfast Program	10.553	7760005-14	529,472
Child & Adult Care Food Program	10.558	7790021-13	3,793
Child & Adult Care Food Program	10.558	7790021-14	45,229
Child & Adult Care Food Program	10.558	7800016-13	28
Child & Adult Care Food Program	10.558	7800016-14	2,314
Summer Food Service Program	10.559	7690024-13	1,611
Summer Food Service Program	10.559	7740023-13	15,368
Child Nutrition Cluster			2,164,206
Pass-Through State Department of Agriculture			
Fresh Fruit and Vegetable Program	10.582	7720012-13	8,954
Fresh Fruit and Vegetable Program	10.582	7720012-14	45,112
Fresh Fruit and Vegetable Program Total			54,066
Food Distribution	10.565	057502-10	137,703
Total U.S. Department of Agriculture			2,355,975
Total Federal Financial Assistance			7,542,807

* Tested as major program

LINCOLN COUNTY SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Lincoln County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

LINCOLN COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Section I – Summary of Auditor’s Results

Financial Statements

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs?

- Material weakness(es) identified? _____ Yes X No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ Yes X None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start
84.010	Title I

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II – Financial Statement of Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

LINCOLN COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
JUNE 30, 2014

There were no prior year audit findings.

WHITE AND COMPANY, P.S.C.
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December 12, 2014

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education
Lincoln County School District
305 Danville Avenue, P.O. Box 265
Stanford, KY 40484

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Auditing Requirements, Appendix II of the independent Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Lincoln County School District's basic financial statements, and have issued our report thereon dated December 12, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lincoln County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Lincoln County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Lincoln County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lincoln County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Lincoln County School District in a separate letter dated December 12, 2014.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
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Stephanie A. Abell, CPA

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December 12, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY OMB CIRCULAR A-133**

Members of the Board of Education
Lincoln County School District
305 Danville Avenue, P.O. Box 265
Stanford, KY 40484

Report on Compliance for Each Major Federal Program

We have audited the Lincoln County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lincoln County School District's major federal programs for the year ended June 30, 2014. Lincoln County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contract, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lincoln County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract – General Audit Requirements, Appendix II to the Auditor's Contract – State Audit Requirements Appendix III to the Independent Auditor's Contract – Audit Extension Request, and Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lincoln County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lincoln County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Lincoln County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of Lincoln County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lincoln County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lincoln County School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
219 South Proctor Knott Avenue
Lebanon, Kentucky 40033
(270) 692-2102
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Charles M. White, CPA
Joseph A. Montgomery, CPA
Stephanie A. Abell, CPA

Email charles.white@whitecpas.com

December 12, 2014

MANAGEMENT LETTER

Members of the Board of Education
Lincoln County School District
305 Danville Avenue, P.O. Box 265
Stanford, KY 40484

In planning and performing our audit of the financial statements of Lincoln County School District for the year ended June 30, 2014, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

Current Year Recommendation:

During the audit, it was noted that some employee timesheets were not approved by the employee's supervisor. We recommend that all employee timesheets, including those for substitutes, be signed by the employee's supervisor to indicate the supervisor's approval.

Management Response:

We will ensure all timesheets are signed by an employee's supervisor.

Current Year Recommendation:

During the audit, it was noted that a travel voucher for a department head was not signed by their supervisor. All travel vouchers should be reviewed and approved by an employee's supervisor.

Management Response:

We will ensure all travel vouchers are signed by an employee's supervisor.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to perform any additional study of these matters or to assist you in implementing the recommendations.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants

WHITE AND COMPANY, P.S.C.
Certified Public Accountants
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Lebanon, Kentucky 40033
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Charles M. White, CPA
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Email charles.white@whitecpas.com

December 12, 2014

Members of the Board of Education
Lincoln County School District
305 Danville Avenue, P.O. Box 265
Stanford, KY 40484

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lincoln County School District for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 30, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Lincoln County School District are described in Note A to the financial statements. As described in Notes A and U to the financial statements, the Lincoln County School District changed accounting policies related to deferred outflows and deferred inflows of resources by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, Items Previously Reported as Assets and Liabilities, in 2014. Accordingly, the cumulative effect of the accounting change as of the beginning of the year is reported in the government-wide financial statements. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 12, 2014.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Lincoln County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Lincoln County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on pages 38 and 39, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this information and we do not express an opinion or provide assurance on it.

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Lincoln County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

White and Company, P.S.C.

Certified Public Accountants